Supreme Court, U.S.
FILED
APR 4 1996
CLERK

(2)

No. 95-1418

IN THE

Supreme Court Of The United States

OCTOBER TERM 1995

LUCIANO PEREGO AND TAPEMATIC S.P.A.,
Petitioners,

V.

KING INSTRUMENT CORPORATION,
Respondent.

On Petition for Writ of Certiorari to the
United States Court of Appeals for the Federal Circuit

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Of Counsel:

Nicholas A. Pandiscio
PANDISCIO & PANDISCIO
470 Totten Pond Road
Waltham, MA 02154
(617) 290-0060

David J. Brezner
Counsel of Record
Richard F. Trecartin
Robin M. Silva
Mark T. Kresnak
FLEHR, HOHBACH, TEST,
ALBRITTON & HERBERT
Four Embarcadero Center
San Francisco, CA 94111
(415) 781-1989

Counsel for Respondents

LANTAGNE LEGAL PRINTING
801 East Main Street Suite 100 Richmond, Virginia 23219 (800) 847-0477

29 pp

TABLE OF CONTENTS

TABLE OF AUTHORITIES iii

STATEMENT OF THE CASE 1

SUMMARY OF THE ARGUMENT 5

ARGUMENT 5

I. There Is No Compelling Reason For This Court To Exercise Its Discretionary Jurisdiction To Review How The Federal Circuit Applied The Patent Damages Statute 5

II. The Federal Circuit's Decision Is Consistent With Applicable Decisions Of This Court 7

A. The Federal Circuit Closely Followed The Principles Set Forth In This Court's Patent Damages Decisions .. 7

B. The Lost Profits Rule Does Not Require The Patent Owner's Product Be Covered By The Patent . 11

C. Public Policy Underlying The Patent Act Precludes A Conclusion That A Patent Owner's Rights To Lost Profits Require Exploitation Of The Invention 17

D. Lost Profits Were Awarded Under The "But For" Test Which Encompasses The Entire Market Value Rule 19

CONCLUSION 23

TABLE OF AUTHORITIES

CASES

Page(s)

Aro Mfg. Co., Inc. v. Convertible Top Replacement
377 U.S. 476 (1964) 9-11, 19

Continental Paper Bag Co. v. Eastern Paper Bag Co.
210 U.S. 405 (1908) 16

Crosby Steam-Gage & Valve Co. v. Consolidated Safety-Valve Co.
141 U.S. 441 (1891) 12-14

Garretson v. Clark
111 U.S. 120 (1883) 20

General Motors Corp. v. Devex Corp.
461 U.S. 648 (1983) 8-11, 19

Hurlbut v. Schillinger
130 U.S. 456 (1889) 20

Keystone Mfg. Co. v. Adams
151 U.S. 139 (1894) 20

King Instrument Co. v. Otari Corp.
767 F.2d 853, *cert denied*, 475 U.S. 1016 (1986) . 10

Manufacturing Co. v. Cowing
105 U.S. 253 (1881) 19

Rite-Hite Corp. v. Kelley Co.

56 F.3d 1538 (Fed. Cir. 1995) 3-6, 14, 24

Seymour v. McCormick
16 How. 480 (1853) 12-14, 20

Westinghouse Co. v. Wagner Mfg. Co.
225 U.S. 604 (1911) 20

Yale Lock Mfg. Co. v. Sargent
117 U.S. 536 (1886) 12, 13

STATUTES AND RULES

35 U.S.C. § 284 ..... 7-11, 15-17, 19, 20

35 U.S.C. § 271(d)(4) 15, 16, 19

S. Ct. R. 10 ..... 5, 6, 10, 21

PUBLICATIONS

Compulsory Licensing of Patents -
A Legislative History
85th Cong., 2d Sess 1-15 (Comm. Pr. 1958) 18

In The

Supreme Court of the United States

OCTOBER TERM, 1995

LUCIANO PEREGO AND TAPEMATIC S.P.A.,

Petitioners,

v.

KING INSTRUMENT CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

STATEMENT OF THE CASE

King Instrument Corp. ("King") manufactured equipment to load magnetic audio or video tape into cassettes. In 1983, King sued Luciano Perego and Tapematic S.r.L. (now Tapematic S.p.A.) (collectively "Tapematic") for patent infringement in the United States District Court for the District of Massachusetts.

The district court found that the Tapematic Model 2002 tapeloader infringed King's U.S. Patent No. 3,825,461 ("the '461 patent"), which covers a tape splicing assembly. Model 2002 is a "dual pancake" machine that has two reels of tape for loading into cassettes. The reel changer, an integral part of the tape loader and including the patented '461 tape splicing assembly, is used to substitute a new reel of tape when the other reel runs out by splicing together the magnetic tape of each reel, eliminating the downtime associated with substituting a new reel. The use of the infringing reel changer made the dual pancake machine possible. Model 2002 was the only dual pancake machine on the market. King sold the King Model 790, a competing, high speed single pancake tapeloader that was principally responsible for King's large share of the tapeloader market.

The district court found that as a result of Tapematic's infringement, King suffered economic injury in the form of lost profits because, "but for" the infringement, King would have sold its market share of its competing Model 790 product. The district court considered the following in its determination of lost profits: (1) the number of sales lost; (2) the gross receipts King would have obtained from lost sales had there been no infringement; (3) the cost of sales to be deducted from gross receipts; and (4) King's profit on the lost sales. (App. 64a.)[1] The district court determined that seventy-seven infringing Model 2002 tapeloaders were sold during the relevant time period, and pointed out that "had [Tapematic's] double pancake machine not been available, the demand for tapeloaders would have been filled by whatever else was on the market" (App. 65a). King

---

[1]Unless otherwise noted, reference to an appendix is to the appendix in the Tapematic Petition for a Writ of Certiorari.

controlled 70% of the tapeloader market, and therefore the district court considered lost profit damages for the sale of only 70% of the market (fifty-four machines).[2]

During the trial, Tapematic argued that its customers were not in the market for a single pancake loader, and had the Model 2002 not been available, its customers would not have purchased a single pancake loader. This clearly shows the vital importance that Tapematic placed on the patented '461 technology in driving its Model 2002 sales. Moreover, the district court stated that there was a reasonable probability that the dual pancake feature was so crucial to at least five customers as to warrant a finding that these customers would not have bought a single pancake model if the dual pancake were unavailable, thus only awarding a reasonable royalty for these loaders. This establishes the significant influence attributed by Tapematic, the market, and the district court to the patented technology for the sales of the Model 2002 loaders. (App. 65a.) Tapematic attempts to belittle the importance of the '461 patent technology by falsely arguing it relates to a mere "optional accessory". But, as set forth above, this is contrary to Tapematic's position taken at trial and to the district court decision.

Both sides appealed to the Federal Circuit. The Federal Circuit heard oral argument on the cross-appeals in August of 1991. More than two years later, in January of 1994, the Federal Circuit decided *sua sponte* to consider the appeal *en banc*. The Federal Circuit then deferred action on the appeal pending *en banc* resolution of *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, (Fed. Cir. 1995) (*en banc*), which held that a patent owner was entitled to lost profits even though the

---

[2] A reasonable royalty was awarded for the remainder of the loaders.

patent owner's product was not covered by the infringed patent. Kelley filed a petition for certiorari which was denied on October 2, 1995.

Relying on *Rite-Hite*, the Federal Circuit in this case affirmed the district court's decision, and awarded lost profits on the sale of forty-nine tapeloaders.

Despite Tapematic's characterization of the Federal Circuit's actions as a drastic and expansive change in patent law, the present case is fully consistent with the proper scope of the patent grant. The present case simply asks, once patent infringement is found, how can the patent owner be made whole? Tapematic attempts to obfuscate this simple issue by citing a number of cases that involve attempts by the patent owner to illegally extend the scope of a patent, *e.g.* by tying arrangements which constitute patent misuse or a violation of the antitrust laws. However, this case relates to the determination of patent damages after a finding of liability for patent infringement not contested here. In fact, the question presented by Tapematic, namely, must a patent holder practice the claimed invention to recover lost profits, has already been decided in the negative by the Federal Circuit in *Rite-Hite*, which this Court declined to hear by denying certiorari.

SUMMARY OF THE ARGUMENT

This case does not provide a "compelling reason" as required by Rule 10 for this Court to grant certiorari. The decisions below do not conflict with decisions of this Court, and were decided appropriately, with deference to this Court's rulings on lost profits, the entire market value rule and the public policy behind the Patent Act.

ARGUMENT

I. There Is No Compelling Reason For This Court To Exercise Its Discretionary Jurisdiction To Review How The Federal Circuit Applied The Patent Damages Statute

This Court exercises its discretionary jurisdiction to review cases only when a petition for certiorari presents "compelling reasons". Rule 10. This case presents only an issue of patent damages which does not meet the Court's criteria.

Rule 10 recites a number of possible "compelling reasons" which would allow the grant of the petition for writ of certiorari, none of which is present here. Coming from the Federal Circuit, which exercises exclusive appellate jurisdiction in patent cases, this case obviously does not present a circuit split. If fact, in *Rite-Hite* the *en banc* Federal Circuit decided the question presented here but not in Tapematic's favor. In addition, the Federal Circuit here did not "so far depart from the accepted and usual course of judicial proceedings" so as to justify the Court's review under Rule 10(a). Moreover, this was not a decision from a state

court of last resort so as to bring the petition under Rule 10(b).

This leaves Tapematic implicitly attempting to rely on Rule 10(c), which, in the absence of a circuit split, requires that the issue raised be an "important question . . . which has not been, but **should be** settled by this Court, or . . . that **conflicts with** applicable decisions of this Court" [emphasis added]. Therefore, Tapematic must show (1) why the question of patent damages presented by Tapematic, already resolved by the Federal Circuit *en banc*, and previously denied certiorari on the same issue in *Rite-Hite*, is sufficiently compelling to take up this Court's time, or (2) which of this Court's decisions the Federal Circuit misapplied.

This Tapematic has not done. Rather, Tapematic has mischaracterized the present state of the law concerning patent damages to arrive at a contrived "conflict" between the well reasoned Federal Circuit opinion and this Court's precedence. Tapematic's suggestion that the Federal Circuit "followed a new approach" (Pet. at 17) and "extended of the scope of patent rights well beyond the limits of the Patent Act and this Court's prior decisions" (Pet. at 17) is clearly unfounded and merely serves to obfuscate its attempt to reargue its case yet again.

Tapematic has not carried its heavy burden in establishing why certiorari should be granted. Taking the criteria of Rule 10(c) in reverse order, King will show that (1) the Federal Circuit's decision does not conflict with decisions of this Court and (2) there is no reason why this Court should now involve itself in the Federal Circuit's well-reasoned analysis of the law of patent damages.

In conclusion, the Federal Circuit's decision was consistent with and built upon this Court's decisions and the stated public policies behind the patent statute. Thus, there is no compelling reason why this Court should take up a question relating to the details of how the Federal Circuit determines damages under the patent statute.

II. The Federal Circuit's Decision Is Consistent With Applicable Decisions Of This Court

The Federal Circuit majority opinion clearly shows that it correctly applied this Court's pronouncements on patent damages under the patent statute.

A. The Federal Circuit Closely Followed The Principles Set Forth In This Court's Patent Damages Decisions

Section 284 of the Patent Act of 1952 (35 U.S.C. § 284) provides in relevant part:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

This Court has established the principles to be applied in interpreting the meaning of the phrase "damages adequate to compensate for the infringement". The decisions of this Court have consistently recognized that a patent owner is entitled to recover, as "damages adequate to compensate" for the defendant's infringing acts, the entire pecuniary loss

suffered by the patent owner which is a result of and caused by the infringing acts, *i.e.*, those damages which place the patent owner in the position that he would have occupied had the infringement not occurred.

Starting with the most recent patent damages decision of this Court, *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983), this Court addressed whether, as a matter of law, prejudgment interest was awardable under Section 284. In the analysis of this case, this Court started with the language of the patent statute and analyzed Congress' intent in enacting Section 284. Prior to 1946, a plaintiff could recover both its damages and the infringing defendant's profits (*see* App. 11a). The 1946 amendment eliminated the patent owner's equitable right to recover the infringer's profits, yet retained the guarantee of complete compensation for damages at law resulting from infringement. Based upon the legislative history of the statute, this Court concluded the purpose and language of the statute is clear:

> Congress sought to ensure that the patent owner would in fact receive **full compensation for "any damages"** he suffered as a result of the infringement. . . . The standard governing the award of prejudgment interest under § 284 should be consistent with **Congress' overriding purpose of affording patent owners complete compensation**. [Emphasis added.]

General Motors 461 U.S. at 654-655.

In holding that interest was awardable, the Court stated:

> [O]n the face of § 284, a Court's authority to award interest is not restricted . . . When Congress

wished to limit an element of recovery in a patent infringement action, it said so explicitly.

General Motors 461 U.S. at 653 [emphasis added]; 35 U.S.C. § 284.

In essence, this Court stated that unless a particular type of damage is expressly **excluded**, a patent owner should not be barred from proving and recovering such damages.

This Court has also reinforced the breadth of Section 284 in its evaluation of the meaning of the phrase "damages adequate to compensate" in *Aro Mfg. Co., Inc. v. Convertible Top Replacement*, 377 U.S. 476 (1964). Specifically, this Court held the phrase is to be interpreted to include:

(1) Compensation for the pecuniary loss the patent owner has suffered as a result of the infringement;

(2) The difference between the patent owner's pecuniary condition after the infringement and what the patent owner's condition would have been if the infringement had not occurred;

(3) How much the patent owner suffered by the infringement; or

(4) What the patent owner would have made, had the infringer not infringed.

Id. at 507.

By interpreting the phrase broadly, this Court essentially stated that virtually any type of damage found "adequate to compensate" by the district court may be awarded so long as

the patent owner is made whole, indicating that the purpose of 35 U.S.C. § 284 is to "put [the patent owner] in the position he would have occupied had there been no infringement". *Id.*

This broad mandate to the district courts has commonly been referred to as the "but for" test. *King Instrument Co. v. Otari Corp.*, 767 F.2d 853, 863, *cert denied*, 475 U.S. 1016 (1986). In other words, "but for" the infringement, what position would the patent owner have been in?

The Federal Circuit here relied heavily upon this Court's analysis and statutory interpretation in reaching its opinion. Thus, contrary to Tapematic's position, the Federal Circuit did not "reject long-established precedent of this Court" (Pet. at 5), and a writ of certiorari under Rule 10(c) is unwarranted.

As this Court did in *General Motors*, the Federal Circuit began its analysis by interpreting the language of 35 U.S.C. § 284. The Federal Circuit noted:

> Section 284 imposes no limitation on the types of harm resulting from infringement that the statute will redress. The section's broad language awards damages for any injury as long as it resulted from the infringement.

(App. 10a.)

The Federal Circuit also looked to the 1946 legislative history, which supports the plain reading of the statute by confirming the breadth of the remedy. The Federal Circuit pointed out that this Court reinforced the breadth of Section

284 in two cases interpreting the statutory provision, *General Motors* and *Aro*.

The Federal Circuit concluded:

> Thus the language, the context, the enactment history, and the Supreme Court's interpretation of the Patent Act clarify that "damages" in Section 284 encompasses an amount necessary to redress any direct injury from infringement.

(App. 14a.)

Thus, the Federal Circuit found, in agreement with the decisions of this Court, that Section 284 broadly allows recovery of whatever damages are necessary to place the patent owner in the position he would have been in the absence of the infringement.

B. The Lost Profits Rule Does Not Require The Patent Owner's Product Be Covered By The Patent

Under the "but for" test, a patent owner is entitled to damages adequate to compensate for the infringement. The minimum awardable damages under Section 284 is a "reasonable royalty". The lost profits of the patent owner is a separate acceptable measure that can be awarded if the patent owner can prove causation; namely the sale of a competing product was lost due to defendant's infringement. However, as noted above, although acceptable prior to 1946, recovery of the infringer's profits is no longer allowed.

A key element of Tapematic's argument centers around the "lost profits rule". Tapematic suggests that a patent owner may not recover lost profits for sales of the patent owner's products that are not covered by the patent even though defendant infringed the patent. This is not the current state of the law.

Tapematic's arguments are misleading because they improperly merge the issues of damages and liability. For example, Tapematic repeatedly makes statements such as "a patentee may not obtain a damages award based only on commerce in goods not covered by its patent" (Pet. at 10). It is axiomatic that defendant's actions, not plaintiff's, determine infringement. Tapematic is not petitioning on the issues of infringement. Rather, it is the **measure** of damages, not whether King is entitled to damages, which is the issue in this case.

Tapematic argues the Federal Circuit decision below, holding the patent owner need not sell goods covered by the patent to recover lost profit damages, is in conflict with three Supreme Court cases *Crosby Steam-Gage & Valve Co. v. Consolidated Safety-Valve Co.*, 141 U.S. 441 (1891), *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536 (1886), and *Seymour v. McCormick*, 16 How. 480 (1853). Tapematic's quoted language from these cases is flagrantly misleading. This Court in *Crosby* was considering a patent owner's recovery under the old "defendant's profits and plaintiff's damages" rule in a factual situation in which plaintiff did not sell any product, much less a competing product. Tapematic's "quoted" citation is deceptive. This Court did not say, as Tapematic suggests, that

> [i]t **is** a material fact to be shown by the plaintiff that it was putting on the market goods embodying the [patented] invention . . . [emphasis added];

rather, this Court stated that

> [i]f there had been an award of damages [for the loss profits of the plaintiff], . . . **it would have been** a material fact to be shown . . . but, as the plaintiff recovers only the profits made by the defendant in using [the patented invention], it is **immaterial** whether or not the plaintiff itself employed that invention.

Crosby 141 U.S. at 452 [emphasis added].

Moreover, the "quote" was not a holding of this Court in *Crosby* that the patent owner must sell a product covered by the infringed patent; rather, this Court was addressing a different issue, and the quoted statement is mere dicta.

Similarly, this Court in *Yale* was completely silent as to whether the plaintiff's sale of locks must be covered by the patent. Rather, in *Yale*, the test was whether plaintiff was selling locks at all, such that he could be damaged by the competing infringing locks. Thus, the relevance of this case is questionable since the plaintiff's locks in *Yale* were in fact covered by the patent, and thus this Court did not speak to this issue at all.

Finally, Tapematic cites *Seymour* for the proposition that the lost profits rule does not apply when the patent owner does not make the patented product. This statement, once again, is taken out of context. As with *Yale*, *Seymour* is not a case where the patent owner sought lost profits and did not market a product covered by the infringed patent.

Seymour, like *Crosby*, was a case decided under the old equitable rule wherein defendant's profits could be awarded. In actuality, a proper and contextual reading of the cited passage shows that this Court was reinforcing the notion that **defendant's** profits were an acceptable form of recovery in some cases yet not in others; the case is silent as to the requirement that a patent owner sell a patented product.[3]

Additionally, Tapematic suggests that the Federal Circuit is in conflict with lower courts (Pet. at 13), an impossible situation given that the Federal Circuit is the court of exclusive appellate jurisdiction in patent cases. Moreover, the underlying issue was resolved by the *en banc* decision in *Rite-Hite*.

Thus, as set out in more detail herein, contrary to Tapematic's position, this Court's decisions do not limit a patent owner's recovery of lost profits to those situations in which the patent owner sells a product covered by the infringed patent.

---

[3]This Court actually stated

> . . . In such cases the profit of the **infringer** may be the only criterion of the actual damage of the patent owner. . . . And where the profit of the patent owner consists neither in the exclusive use of the thing invented or discovered, nor in the monopoly of making it for others to use, it is evident that this rule [*i.e.*, measuring damages by the defendant's profits] could not apply.

Seymour, 16 How. at 488-489.

Thus, this Court in *Seymour* is not addressing the lost profits of the patent owner, but rather the defendant's profits, and the cited language is irrelevant to the issue at hand.

On this point, the Federal Circuit noted that in addition to the 1946 amendment on the issue of patent damages, a significant change in the patent statute was enacted in 1952. Prior to that time, the bundle of patent rights was defined in terms of "the **exclusive right to make, use and vend** the invention or discovery", thus giving the patent owner the exclusive right to exploit his invention [emphasis added]. (App. 13a.) In 1952, the statute was amended to give a patent owner the right to "**exclude others** from making, using and selling" the invention [emphasis added]. Illustrating the significance of this change, the Federal Circuit stated:

> The 1952 amendment should have corrected any mistaken belief that patent rights somehow hinged upon the patent owner's exploitation of the invention.

(App. 14a.)

Tapematic intentionally avoids this crucial change in the law. The right to damages for patent infringement is based on the grant of rights to exclude others from practicing the invention. Once infringed, this Court's analysis of Section 284 makes clear that the patent owner must be "made whole" via the award of damages. There simply is no requirement that the patent owner practice his invention to reap the benefit of the patent grant.

Furthermore, this interpretation of Section 284 is consistent with 35 U.S.C. § 271(d)(4), which provides

> **No patent owner** otherwise entitled to relief for infringement or contributory infringement of a patent **shall be denied relief** or deemed guilty of misuse or illegal extension of the patent right **by**

> **reason of his having** . . . (4) **refused to** license or **use any rights to the patent**. . . . [emphasis added].

Section 271(d)(4) underscores the congressional intent to avoid penalizing a patent owner for not exploiting the invention. This statute incorporates a principle recognized by this Court over 80 years ago, when it rejected the idea that a patent owner that does not commercialize its invention to the exclusion of all its other products should be denied the full range of remedies available against infringers. In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), the infringer argued that it should not be enjoined from infringing because the patent owner did not practice the patent in suit. The Court rejected this argument, holding that a patent owner is not a "quasi-trustee for the public." *Id.* at 424. The patent is the patent owner's "absolute property;" even if the patent owner does not commercialize the invention, "he may insist upon all the advantages and benefits which the statute promises. . . ." *Id.*

Thus, Section 271(d)(4) explicitly prevents the denial of damages to a patent owner that does not practice the invention. It would appear to be a strain of statutory construction and interpretation to read into 271(d)(4) a further limitation that "no patent owner shall be denied relief . . . **for damages except lost profits** . . . by reason of his having . . . (4) refused to . . . use any rights to the patent"; yet to so limit Section 284, as suggested by Tapematic, would require such a limitation in 271(d)(4) as well. Rather, a literal reading of both sections provides a uniform and coherent interpretation of the relevant statutes.

C. Public Policy Underlying The Patent Act Precludes A Conclusion That A Patent Owner's Rights To Lost Profits Require Exploitation Of The Invention

In addition to the lack of statutory support and decisional case law for the lost profits rule proposed by Tapematic, there are sound public policy reasons that support the divorce of a lost profits recovery from a requirement that the patent owner practice the infringed patent.

In its decision in this case, the Federal Circuit eloquently explained the public harm that would occur upon adoption of the Tapematic proposed lost profits rule. The Federal Circuit reiterated that the Patent Act creates an incentive for innovation, with the economic rewards of exclusivity as the impetus for disclosing the invention. Upon the grant of this exclusivity, Section 284 serves to allow a patent owner to recoup the market value lost upon infringement. The Federal Circuit pointed out that by broadly interpreting Section 284, the market, rather than the courts, dictate how an invention should be exploited.

The Federal Circuit outlined several significant reasons why adoption of Tapematic's proposal that the patent owner market a product covered by the infringed patent would be both unjust and unwieldy:

(1) The best use of a patent may be to exclude infringing products, rather than market the invention. For example, the patent owner may not be able to compete with the infringer in a cost-effective manner or may not be able to enter the market due to the infringer's presence. The patent owner may acquire better returns on its investment by attempting to exclude infringers from competing with the

patent holder's nonpatented substitute. Courts should not encourage patent owners to make market decisions based on the measure of damages under various theories of recovery.

(2) Requiring exploitation of the invention would not result in "damages adequate to compensate for the infringement" since patent owners would be forced to accept a reasonable royalty in cases where a reasonable royalty is inadequate compensation, for example, when the maximum profit is to be derived by excluding all others from using the invention. This is essentially a retroactive compulsory license, a concept repeatedly renounced by Congress.[4]

(3) Forcing a patent owner to exploit infringed claims would cause the remedy for infringement to depend partly on the type and number of claims selected by the inventor, rather than the scope. Thus, for example, when related patents recite different equivalent embodiments, *i.e.*, different species of the same generic invention, and the patent owner commercializes one equivalent species and the infringer commercializes a different equivalent species, the patent owner cannot recover lost profits, although the infringing product is in direct competition. This cannot be considered an equitable result.

(4) Tapematic's proposed lost profit rule also has the potential for drastically increasing the complexity of patent litigation. In addition to proving the infringer's device falls

---

[4]In fact, Congress rejected numerous attempts to punish the patent owner's failure to commercialize its invention by imposing compulsory licenses on patent owners because of their "non-use" of the invention. Compulsory licensing provisions were rejected by Congress at least ten times between 1911 and 1950; *see*, *Compulsory Licensing of Patents - A Legislative History*, 85th Cong., 2d Sess 1-15 (Comm. Pr. 1958).

under the claims, the patent owner would have to prove its own product falls under the (same) claims. This could, in the Federal Circuit's words, "conceivably double" the length, cost and complexity of an infringement trial (*see* App. 19a).

Taken together, the plain language of Sections 284 and 271(d)(4) of the statute, this Court's interpretation of this language in *Aro* and *General Motors*, and the sound public policy reasons articulated by the Federal Circuit, all lead to a finding that the value of a patent does not depend on whether the patent owner markets the claimed product.

D. Lost Profits Were Awarded Under The "But For" Test Which Encompasses The Entire Market Value Rule

In attempting to persuade this Court that an improper standard for measuring damages was applied by the district court and affirmed by the Federal Circuit below, Tapematic points to the "entire market value rule" and argues that the damages award here deviates from the entire market value rule and therefore is improper.

Under the entire market value rule, a patent owner may be entitled to damages for lost profits on the sale of an entire machine and/or on the sale of non-patented collateral items such as replacement parts, even though the patent covers only one or a limited number of features of the entire machine. The patent owner is entitled to such lost profits if it is shown that the patent owner would have profited from sales of the unpatented portions or items if not for infringement of the patented article. For example, in *Manufacturing Co. v. Cowing*, 105 U.S. 253, 255 (1881), this Court stated:

> It does not necessarily follow from this that where the patent is for one of the constituent parts, and not for the whole of the machine, the profits are to be confined to what can be made by the manufacture and sale of the patented part separately....[I]t is clear the infringer has by his infringement secured the advantage of a market he would not otherwise have had, and that **the fruits of this advantage are the entire profits he has made in that market**. [Emphasis added.]

See also *Westinghouse Co. v. Wagner Mfg. Co.*, 225 U.S. 604 (1911) and *Hurlbut v. Schillinger*, 130 U.S. 456 (1889).

The policy underlying the entire market value rule is essentially the "but for" test which assures that the patent owner receives full compensation for all losses caused by the defendant's infringing acts[5] and is not limited to recovery of lost profits limited to that portion of the infringer's machine covered by the patent. Rather, as correctly stated by Tapematic, the patent owner can receive lost profits on the entire machine as long as the patent owner establishes "that the patented feature accounts for some or all of the demand for the product".[6]

Thus, Tapematic's citation of the early cases *Seymour v. McCormick*, 16 How. 479 (1853), *Garretson v. Clark*, 111 U.S. 120 (1883) and *Keystone Mfg. Co. v. Adams*, 151 U.S. 139 (1894) is a smokescreen. It is uncontested that the entire market value rule exists; the sole issue is whether the district court correctly applied that rule to the facts.

---

[5]Tapematic agrees that the entire market value rule is "entirely consistent with the statutory language" of Section 284; *see* Pet. at 16.

[6]*See* Pet. at 16.

The way in which a district court interpreted the facts in its findings under a well recognized legal principle is not a proper issue for granting a writ of certiorari. Rule 10 specifically states that even "misapplication of a properly stated rule of law" rarely results in the grant of the petition. Thus, this Court should deny Tapematic's petition for certiorari. Furthermore, the district court did not "misapply" the rule, as outlined below.

While the award of the lost profits damages in this case may be determined generally under the "but for" test entirely without reference to the more specific entire market value rule, the facts in this case also justify the identical award under the more specific rule. To this end, the district court's opinion below is particularly telling. While not specifically addressing the entire market value rule, the district court fully considered evidence relevant to this determination. The district court pointed out that the infringing Tapematic machine was a fully automated "dual pancake" loader that had "the ability to switch automatically from an empty reel of tape to a full reel of tape without stopping the machine" by using the splicing assembly of the King '461 patent. (App. 50a.) The district court stated that "[t]his feature has a profound effect on the speed and efficiency of the machine as there is no down time when a full reel of magnetic tape must be loaded" (App. 50a). The district court thus underscores that it was the ability to splice tape from one reel to the next through the use of the infringing reel changer that made the dual pancake machine possible. In the absence of this ability, the machine would have a single pancake, and require down time to switch to a new reel. Tapematic argued that (1) its customers were not in the market for a single pancake loader, and (2) had their dual machine been unavailable, the customers would not have purchased a single pancake machine. (App. 65a.) Thus, demand for the dual

pancake machine was based in large measure upon the infringing device. These facts thus show that the requirements for the award of damages under the entire market value rule have been met.

In further support of this finding, the district court believed that there was a reasonable probability that the dual pancake feature was so crucial to some customers as to warrant a finding that five customers would not have bought a single pancake model if the dual pancake were unavailable, thus only awarding a reasonable royalty for these loaders. This establishes the major significance to the sales of the Model 2002 loaders attributed by Tapematic and the district court to the patented technology. (App. 65a.)

Thus, the district court opinion makes clear that King has met the test cited by Tapematic, namely, that "the patented feature accounts for some or all of the demand for the product" (Pet. 16). The use of the infringing reel changer made the dual pancake machine possible.

This is not the case, as Tapematic suggests (*see* Pet. at 7), where an insignificant engine valve was hypothetically patented and used by an innocent engine maker who then was liable to General Motors for the lost sale of entire cars. Rather, a proper hypothetical analogy is where (1) the patent is for the four wheel drive transmission of a vehicle, (2) the defendant sells the only four-wheel drive vehicle which infringes the patent and (3) customers are enticed to buy defendant's vehicle because it is a four-wheel drive vehicle, rather than the patent owner's two wheel drive vehicle. If the infringer had not infringed, there would be no four wheel drive vehicles on the market, and the customer would have purchased plaintiff's two wheel drive vehicle. Causation is established because the patent owner would have sold its two

wheel drive vehicles "but for" defendant's infringement. The analogy to the present facts is striking.

In conclusion, while the district court's award of damages as affirmed by the Federal Circuit need not rely on the entire market value rule, the application of the facts of this case to this rule fully support the damages award as the district court pointed out. Furthermore, this Court should not waste its valuable time in reviewing the application of the specific facts of this case to a properly stated entire market value rule.

CONCLUSION

This case does not involve expanding the limits of the patent grant. King is not attempting to exclude its competitors from making, using, or selling a product not within the scope of its patent. Rather, this case contains a damages issue: once infringement of a valid patent is found, how may the patent owner be made whole? Turning to this Court's interpretation of the statute, the answer is clear: through the award of lost profits on the products King would have sold but for Tapematic's infringement. This the district court awarded and the Federal Circuit affirmed. The Federal Circuit properly applied this Court's decisions, and the correct statutory construction, in affirming the district court's decision. There is no reason to disturb this holding. This Court has already denied certiorari on the same issue of lost

profits in *Rite-Hite*. This case does not provide any additional "compelling reasons" for certiorari, and the petition should be denied.

Respectfully submitted,

David J. Brezner
Counsel of Record
Richard F. Trecartin
Robin M. Silva
Mark T. Kresnak
FLEHR, HOHBACH, TEST,
ALBRITTON & HERBERT
Four Embarcadero Center
San Francisco, CA 94111
(415) 781-1989

Counsel for Respondent

Of Counsel:

Nicholas A. Pandiscio
PANDISCIO & PANDISCIO
470 Totten Pond Road
Waltham, MA 02154
(617) 290-0060